

Teaching & Learning Guide

Non-financial shareholder activism: a process model for influencing corporate environmental and social performance

This guide accompanies the following article:

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Read the original article at: <http://bit.ly/IJMR12157>

Authors' Introduction

Shareholders are becoming increasingly interested in the environmental and social performance of the companies in which they're invested, but their ability to exert influence over this performance is restricted. Our article provides a model for the influencing process, showing the mechanisms available to shareholders as well as the enabling actors and tools that shareholders can draw on to enhance their influence. We go on to explain how company managers in turn perceive the salience of these activist shareholders, and how their response to these attempts at influence may be defined in terms of symbolic and substantive actions.

Authors Recommend

- Sjöström, E. (2008). Shareholder activism for corporate social responsibility: what do we know? *Sustainable Development*, **16**, pp. 141-154.
(A foundational review of many of the earlier studies carried out in the field of non-financial shareholder activism).
- Goranova, M. and Ryan, L.V. (2014). Shareholder activism: a multidisciplinary review. *Journal of Management*, **40**, pp. 1230-1268.
(This important and recent article discusses non-financial shareholder activism together with the more developed field of financial shareholder activism).
- Clark, G.L., Salo, J. and Hebb, T. (2008). Social and environmental shareholder activism in the public spotlight: US corporate annual meetings, campaign strategies, and environmental performance, 2001-04. *Environment and Planning A*, **40**, pp. 1370-1390.
(Based on data available from the Interfaith Center for Corporate Responsibility, this article provides a useful analysis of the more public forms of non-financial shareholder activism).
- David, P., Bloom, M. and Hillman, A.J. (2007). Investor activism, managerial responsiveness, and corporate social performance. *Strategic Management Journal*, **28**, pp. 91-100.
(This is one of the comparatively few articles that attempts to follow the full process from activism to managerial response to corporate performance).

Useful Links

- The United Nations Principles for Responsible Investment serves as a useful clearing house for a range of information relating to influencing company environmental and social performance.
<https://www.unpri.org/>

- The US Forum for Sustainable and Responsible Investment provides useful and up-to-date research on topics linked to environmental and social issues.
<http://www.ussif.org/>
- ShareAction is an active NGO focused on unlocking investor power to influence company behaviour.
<https://shareaction.org/>
- The Interfaith Center on Corporate Responsibility has a long track record of calling on large companies to account for their impact upon the vulnerable.
<http://www.iccr.org/>
- CDP is an NGO that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.
<https://www.cdp.net/en>
- The Centre for Environmental Rights helps communities and civil society organisations in South Africa by advocating and litigating for environmental justice. Through its Corporate Accountability Programme it is now providing guidance to company shareholders on questions that bear asking at annual general meetings.
<https://cer.org.za/>

Sample Syllabus

This topic of non-financial shareholder activism could be presented as a sub-section of courses aimed at several different audiences. These could include investment managers seeking to understand aspects of responsible investment, NGOs wishing to extend their influence over corporate environmental and social performance, and senior managers and board members who may face non-financial shareholder activism and are desirous of preparing for such eventualities.

TITLE: Non-financial shareholder activism.

Seminar 1: The context of non-financial shareholder influence

The broader milieu impacts upon both activist shareholders and company managers. This session will describe different types of shareholders and their varying motivations as well as the implications of company nature for the influencing process. A range of environmental and social aspects of company performance will be outlined, and the impact of the applicable regulatory regime upon activism.

Suggested Reading

- Judge, W.Q., Gaur, A. and Muller-Kahle, M.I. (2010). Antecedents of shareholder activism in target firms: evidence from a multi-country study. *Corporate Governance: An International Review*, **18**, pp. 258-273.
- Lydenberg, S. (2013). Responsible investors: who they are, what they want. *Journal of Applied Corporate Finance*, **25**, pp. 44-49.
- Proffitt, W. and Spicer, A. (2006). Shaping the shareholder activism agenda: institutional investors and global social issues. *Strategic Organization*, **4**, pp. 165-190.

Seminar 2: How shareholders can influence companies

This session will describe the three main interventions available to shareholders: divestment, dialogue, and shareholder proposals, and detail the advantages and disadvantages of each of these courses of action.

Suggested Reading

- Beaty, D. and Harari, O. (1987). Divestment and disinvestment from South Africa: a reappraisal. *California Management Review*, **29**, pp. 31-50.
- Logsdon, J.M. and Van Buren, H.J. (2009). Beyond the proxy vote: dialogues between shareholder activists and corporations. *Journal of Business Ethics*, **87**, pp. 353-365.
- Barber, B.M. (2007). Monitoring the monitor: evaluating CalPERS' activism. *Journal of Investing*, **16**, pp. 66–80.

Seminar 3: How shareholders can strengthen their influence over companies

This session will explain how shareholders can draw on coalitions, NGOs, indices and codes, the media, and regulators, and will show how these actors and tools can enhance and, at times, detract from the influencing process.

Suggested Reading

- Guay, T., Doh, J.P. and Sinclair, G. (2004). Non-governmental organizations, shareholder activism, and socially responsible investments: ethical, strategic, and governance implications. *Journal of Business Ethics*, **52**, pp. 125-139.
- Davis, G.F. and Thompson, T.A. (1994). A social movement perspective on corporate control. *Administrative Science Quarterly*, **39**, pp. 141-173.

Seminar 4: How managers perceive shareholder attempts at influence over company environmental and social performance

The perspective of stakeholder salience theory will be used in this session to describe managerial perceptions of the efforts of non-financial shareholder activists.

Suggested Reading

- Mitchell, R.K., Agle, B.R. and Wood, D.J. (1997). Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts. *Academy of Management Review*, **22**, pp. 853–886.
- Gifford, E.J.M. (2010). Effective shareholder engagement: the factors that contribute to shareholder salience. *Journal of Business Ethics*, **92**, pp. 79-97.

Session 5: What managers may do in response to shareholder pressure

Changes in corporate environmental and social performance is what non-financial shareholder activists are looking for. In this session, signalling theory will be used to explain managerial actions, and how the differences between symbolic and substantive actions may be discerned.

Suggested Reading

- Perrault, E. and Clark, C. (2016). Environmental shareholder activism: considering status and reputation in firm responsiveness. *Organization & Environment*, 29, pp. 194-211.
- Van Cranenburgh, K.C., Liket, K. and Roome, N. (2013). Management responses to social activism in an era of corporate responsibility: a case study. *Journal of Business Ethics*, 118, pp. 497–513.
- Waldron, T.L., Navis, C. and Fisher, G. (2013). Explaining differences in firms' responses to activism. *Academy of Management Review*, 38, pp. 397–417.
- Westphal, J.D. and Zajac, E.J. (1994). Substance and symbolism in CEOs' long-term incentive plans. *Administrative Science Quarterly*, 39, pp. 367-390.
- Connelly, B.L., Certo, S.T., Ireland, R.D. and Reutzel, C.R. (2010). Signaling Theory: a review and assessment. *Journal of Management*, 37, pp. 39–67.

Focus Questions

1. What are the primary aspects of corporate environmental and social performance for which shareholders should hold company managers accountable?
2. Under what conditions does divestment become the only appropriate intervention for a shareholder seeking to influence the company?
3. This article has described the role of shareholder coalitions, NGOs, codes and indices, the media and regulators; what other enabling actors and tools could be usefully deployed by shareholders seeking to enhance managerial perceptions of their salience?
4. What are the internal company characteristics that may affect managerial perceptions of shareholder salience?
5. How do managers decide between substantive and symbolic responses to shareholder influencing attempts?

Project Ideas

The process model that is developed in this article provides the basis for a plethora of opportunities for student project work. Because there are a range of actors that are described in the influencing model, groups of students can be assigned different roles to fulfil in a simulation of the process. By way of example:

1. Students could be provided with an outline of a particular influencing context, describing the shareholder in whose place they will be acting, the shareholder's motivation for attempting to exert influence, the type of company involved, pertinent aspects of the regulatory environment, and what aspect(s) of company environmental or social performance is at issue. The students could then be required to prepare a report as to how they would go about exerting influence on the company's management, what interventions they would deploy, and how they would draw on enabling actors or tools to enhance their salience in the eyes of managers.
2. Students could be called upon to play the role of company managers, and provided with the outline of a situation where shareholders are attempting to exert influence through a variety of channels. The students could then prepare a report, perhaps for the company's board of directors, as to how best to determine the salience of the shareholders' demands, and how the company should most appropriately respond.
3. A combination of these exercises could be even more instructive, with the time pressures of the classroom potentially adding an aspect of realism. One group of students could play the role of shareholders, another that of, say an NGO or a regulator, a third that of managers.

The first group could interact with the second to prepare their approach, and then present it to the third, who would then need to develop an appropriate response. A fourth group might assist the course facilitator's assessment process by taking on the role of the media and reporting on the process!